

# The Indian Labour Market : Some Facets of its Character and Functioning

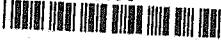
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T. S. Papola

Kunda Datar Memorial Lectures 1984 delivered at Gokhale Institute of  
Politics and Economics, Pune, on 8-9 March 1985.

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January 1986



THE INDIAN LABOUR MARKET : SOME FACETS OF ITS CHARACTER AND FUNCTIONING\*

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## I WAGE LABOUR IN INDIAN ECONOMY : Concept and Coverage

### The Concept

As an essential ingredient in production, labour permeates the entire economy. Yet when it is identified for the purposes of study by the economists and other social scientists, by governments for policy making and by unions for organisation, the concept gets interpreted in the much narrower sense covering generally the regular factory workers only.

The basic problem accounting for the adoption of a limited scope of the concept of labour in these contexts, is a restricted understanding of the term 'worker' in which labour is sought to be identified. Most often, a worker is considered as representing labour only when he sells his services to an employer directly in exchange for a compensation in cash or kind. Thus the status of an 'employee' is considered essential for any worker to represent labour as a category for analysis, policy making and unionisation. In practice, the coverage gets further narrowed down, when labour is considered for these purposes, to the workers holding an employee status on a regular basis in a formal organisation with specified legal status. Thus the labour represented by workers in the non-formal organisations, those working on their own account and those casually holding the status of an employee generally remain outside the purview of the dominant ideas in labour economics, labour policy and unionism.

The limited concept of labour, confining only to the regular employees of the formal organisations, was probably adequate in the developed countries at the historical juncture when the concern for labour as a social group started. The socio-economic organisation and the capi-

talist pattern of economic development in those countries, led to the evolution of a system in which the society could easily be seen consisting of two classes, capitalist-employers, and wage-earner employees. Production organisations were also sufficiently large and organised and most workers were engaged as wage-labour, by the last quarter of the 19th century, when the concern about the conditions of labour and working classes started emerging.<sup>1</sup> In other words, if the study, policy and unionisation of labour was confined to factory labour only, they were not found inadequate in so far as this section of workers constituted the major part of the classes depending on their labour for their livelihood. And whatever limitations this concept of labour initially had also increasingly diminished with the progressive conversion of unorganised sector into the organised sector with self-employed becoming regular wage and salary earners.

The simplicity of the concept, models and methods of analysis and also availability of data influenced the choice of the students of labour problems in India in favour of the limited coverage of their subject matter confining only to the factory workers. Policy measures by the government have also largely been limited to this segment and so has been the coverage of trade unionism. The inadequacy of this concept of labour in the context of the Indian economy is too obvious to need any elaboration. The Indian economy is at too low a stage of capitalist

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<sup>1</sup>Cf. Dobb, Maurice, Studies in the Development of Capitalism, London, Routledge and Kegan Paul, 1963.

development to render the status of wage and salary earning employees to the majority of workers. The prevalent structures of production organisations and property relationships are different from those in the developed countries, in a manner that tends to keep the degree of organisation rather low and transition from self-employment to wage labour slow.

In effect, therefore, the analytical and policy frame of labour following the concept used in developed capitalist economies, as has been adopted by and large in India, results in the coverage of a small fraction, say around ten per cent, of the total labour force. Even when an attempt is made to bring in all the wage labour, including that engaged in the non-organised sector, the coverage still remains at around 25 per cent of the labour force due to the predominance of the pre-capitalist modes of production relying mainly on own supply of labour. Such a relatively wider coverage is generally accepted as desirable concept, but rarely gets operationalised due to lack of information and adequate efforts on the part of researchers, policy makers and unions. The loss of content involved in this process is obviously not just marginal. In fact, any consideration of labour question in India not taking into account the forms, structure and processes of labour engaged in the unorganised sector, both as wage earners and self-employed, could be highly misleading.

In order, therefore, to get an idea of the total labour involved in different production processes, or even to identify the working class,<sup>2</sup> one would have

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<sup>2</sup> For a similar approach from the viewpoint of working class struggle, analysing the differentiation, economic relations and common grounds among different segments of labour, see Arvind N Das, Fernando Rojas, and Peter Waterman, "The Labour Movement and the Labouring People in India" in Arvind N Das, V Nirkant and P S Dubey (Ed), The Worker and the Working Class, A Labour Studies Anthology PFCCF, New Delhi, 1984, pp.3-25.

to extend the scope of analysis not only beyond the workers employed in the organised industry and services to the wage earners in the unorganised activities in agriculture, manufacturing and services, but also to such workers who do not appear as wage earners as they are not working in an employer-employee framework, but nevertheless work for others, and their incomes partake the nature of wages as they are primarily derived from the sale of their labour. Our aim in this lecture is to develop an approach towards such a comprehensive concept of labour. To begin with, an effort is made to develop a framework to define this wider concept of labour in terms of certain basic characteristics. The next task will be to identify the categories of workers which would get included in its coverage. And finally, effort will be made to illustrate the concept empirically by estimating the magnitude of labour in the Indian economy, in its various categories and in aggregate.

In a market-oriented analysis, labour policy is seen as that part of population which is available for work on a hired basis. Part of it may be actually in the market as employed, or actively seeking work as wage and salary earners in production organisations. Yet another part, though not seen as sellers of labour in the market, consist of people engaged in own account work, but willing to sell their labour if such opportunity became available. The test for inclusion of such workers in the analysis of labour market would consist in the degree of their mobility from the self-employed to the hired category at the market rate or subsistence level of wages. To avoid the problem of subjective assessment and inter-personal variations in such a test, it is possible to resort to a broad class analysis which would by and large match tenets of the market analysis. In such an approach one can consider all those persons in

the labour market whose ownership of non-labour resources is too meagre to meet the basic subsistence needs, or is able to generate only an income less than the market rates of wages. Labour supply in this broad sense would thus cover not only the actual, but also the potential entrants in the labour market for the sale of their services; and the working class would include not only those without any capital, but also those with only such amount of capital and property which, even with the substantial use of their own labour is at best adequate for their subsistence.

In terms of the income categories, the above approach identifies labour to consist not only of such workers who are, in fact, earning wages and salaries by working for others, but also all such persons whose income partakes predominantly the nature of wages, as it is mainly derived from the application of their labour although the form in which it is received may be that of a price for the product or a contract payment for services. Another basic feature of labour in this generalised form is its dependence on capital,<sup>3</sup> not only the one used in capitalistic enterprises but also that owned and used for buying labour services by the traders, merchants, and households. The criterion of dependency, however, needs to be applied rather cautiously. For example, entrepreneurs of small enterprises are often dependent for capital and market on the large capitalist organisations, but their ownership of the means of production is substantial enough to yield a higher than subsistence level of property income. It is, therefore, important that we combine the following three criteria

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<sup>3</sup> For an elaboration of the concept of 'dependency' on capital, and, sometimes, on extension of it to not easily acceptable domain, e.g. of reproduction, and employment, see Das, Rojas and Waterman, op.cit., p.6.

for identification of labour category : limited or no ownership of non-labour resources, direct or indirect sale of labour as the main source of income, and dependence on others' capital for this income.

### The Categories

Let us now look at the empirical categories of labour in India which should be included in the generalised conceptual framework outlined above. First, of course, is the easily recognised category of regular employees of the organised manufacturing and service sectors which has been universally adopted by social scientists, government and trade unions for their purposes. Here again, it is the labour regularly employed in the factory establishments in the manufacturing sector to which labour research, policy and action have been primarily directed, though attention has eventually been paid to the organised services, particularly in the public sector, due mainly to its increasing magnitude and significance. Focus of research still continues to be on the former and little attempt is made to integrate the analysis of the two segments of the organised labour market. Within the organised sector there is a significant sections of non-regular, casual and contract workers, who are clearly wage earners, but have not received adequate attention due to changing nature and location of their employers and workplace.

It seems that the labour question has been traditionally approached from employers' angle : there will be workers, and, therefore, labour, only when there is an employer and an establishment. But even this approach has not been fully operated in practice, as a large number of regular and casual employees of the small and informal establishments in the unorganised sector including agriculture have not attracted adequate attention from research workers, policy makers and trade unions. In their

case there is no conceptual confusion regarding their status as wage-earning employees. The reasons generally given for their non-consideration for research, policy and organisational purposes are of a practical nature, namely, non-availability of information, scattered and small size of their groups and difficulties of administration due to unmanageably large number of establishment in which they work.

Thus even if one takes the relatively narrow concept of 'wage labour' or 'hired labour' the coverage would go far beyond the organised industry and service sectors. Wage labour is widely prevalent, and in fact most of it in India is engaged, in the non-organised activities in industry, service and agriculture. Further, a sizeable segment of the self-employed or independent workers operating on a putting out basis for the establishments, as artisans, weavers, and craftsmen or, working as producers, vendors, repairers and loaders of goods and services for households and establishments, are, in fact, living on the sale of their labour, though they do not have a regular employer, and do not work in an establishment. The term 'self-employed' or 'independent' is a misnomer in their case in so far as they do not provide employment for themselves and their employment and living is more precariously dependent on others, owners of capital resources,<sup>4</sup> than that of the 'employees' of establishments. Within this category could also be included the marginal cultivators, who though owners of some land, depend for their major part of their livelihood on work for others and even the income they derive from cultivation of their land is primarily a reward for their labour

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<sup>4</sup> Cf Breman, Jan : 'A Dualistic Labour System : A Critique of the Informal Sector Concept", Economic and Political Weekly, 27 November, 4 and 11 December 1976, pp. 1873.

services rather than return on the land and capital invested in it. On an approximate basis, cultivator households owning, say, less than three acres of land, could legitimately be regarded more as labour households than cultivators, according to the criterion of major source of income.

Unlike in the case of wage earning employees in the unorganised sector, the consideration of the self-employed of the above variety as part of the wage labour and labour market is beset with conceptual problems.<sup>5</sup>

The former work for an employer directly, the latter do not. Further, if the criterion of lack of non-labour resources is applied in literal and absolute terms, so that any ownership of concept of labour, most self-employed would fall outside the scope of wage labour. Traditionally, only such persons seem to have been considered as part of the labour market who have either directly sold their labour or are in the market to sell it, leaving out those only marginally out of it and with latent desire to sell their labour directly. The nature of their income in terms of its major source - labour or property - does not seem to have been taken into account for categorisation of a worker as wage labour.

If one attempts to look at the worker categories not merely in terms of the form of labour exchange and income, but also their substance, a sizeable part of the urban self-employed and peasantry would get classified as wage earner. Those who derive their income from labour, though not necessarily through a direct sale of it to a specified employer would, no doubt, qualify for this category. But even those whose income takes

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<sup>5</sup> See Scott Alison MaC Ewen, 'Who are the self-employed', Ray Bombley and Chris Gerry (Eds), Casual Work and Poverty in Third World Cities, Chichester, Jon Wiley and Sons, 1979, pp.105-132.

the form of price of their product, but is hardly equal to the market rate of wages should form a part of the wage labour category, at least in a potential sense. A sizeable part of the small holders, for example, would be in this category. It is well known that if a cost concept inclusive of wages of unpaid family labour at current rate is adopted, most of the marginal holders and a sizeable part of the small holders would end up with a 'loss' in their cultivation operations. There are two implications of this kind of situation : one, that the production activity at such a scale involves almost insignificant use of non-labour resources and, therefore, the income derived is mainly the reward for labour services; and two, that given the lower-than-market-wage income from own-production, the workers should be available to work as hired labour as that would raise their income. This phenomenon while widely prevalent in agriculture, is not necessarily confined to it; a large section of the self-employed in rural non-agricultural activities and the urban informal sector, also operate with similar levels of earnings. Most self-employed in the urban informal sector as also in the rural non-agricultural sector are certainly to enter the market for wage labour, if an opportunity arose.<sup>6</sup> In fact, it is often hypothesised that the workers in the urban informal sector are in their present activities simply waiting for a chance to move into the category of wage labour. The situa-

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<sup>6</sup>See Papola, T.S. Urban Informal Sector in a Developing Economy, Delhi, Vikas, 1981; and Papola T.S., Rural Industrialisation: Approaches and Potential, Bombay, Himayala Publishing House, 1982.

tion in the case of landholders in the rural areas is, however, somewhat diffused due primarily to the sociology and psychology of attachment to the land as a form of property. A landowner is a landowner, howsoever small his holding may be, and this ownership lends him a social status and psychological security. His behaviour may, therefore, defy the notion of economic rationality in so far he sticks to his vocation despite possibilities of enhancing current earnings by switching over to wage labour. With the increasing penetration of commercialisation and capitalist relations of production in agriculture, it is, however, likely that an increasingly larger number of members of such cultivator households would opt for wage labour whenever such opportunity becomes available.

#### The Coverage

Applying the criteria indicated earlier, the concept of labour for the purposes of analysis and policy, would include the following categories: (i) regular employees of the Factories and of the public service establishments and of the corporate and organised units in the private sector; (ii) casual and contract workers working for establishments in the unorganised manufacturing and service sectors; (iv) self-employed in the urban informal sector (v) landless rural labourers, and (vi) cultivators with a holding size of say, upto one hectare and (vii) workers in the rural household industry.

It is difficult to have any precise estimates of workers in each of these various segments. We may, attempt a broad estimate of the number and proportion of workers who would be covered within the concept we have been arguing for, on the basis of available information and certain assumptions.

Let us start with the proposition that all 'workers' are actual or potential wage earners except those identified as 'employers'; or, then, as 'self-employed' or 'independent workers', who are better off in that status than they would be if employed on wage and salary basis. From the Census of India 1971 we have an estimate of the 'employer' category of workers at around 5 per cent. Of the 'self-employed' and 'family workers' in the rural areas, the largest group is that of cultivators, from amongst whom most of the tiny holders and some from among the rest could be candidaters for wage labour. According to the Census of landholdings, around 53 per cent of the operational holdings were classified as marginal in 1976-77.

Assuming that number of cultivators per holding is constant across different sizes of holdings (the difference being mainly in the number of agricultural labourers per holding) the proportion of cultivators operating on marginal holding could also be put at around 53 per cent. And further assuming that the number of marginal cultivators unwilling to switch to wage labour would be matched by those willing to do so from the cultivator households with larger holdings, the potential wage earners from the 'cultivator' category could also be placed at that percentage. The other category of self-employed in the rural areas, consists of those engaged in household industry. Given the levels of their earnings, it seems realistic to assume that around two-thirds of them would opt for a regular wage or salaried job if available.<sup>7</sup>

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<sup>7</sup> This assumption is based on a comparison of earnings of the workers in rural industries with the absolute minimum level of wages for subsistence, or prevalent market wages. See Papola T.S., Rural Industrialisation, op. cit., and Papola, T.S., Rural Industrialisation: A Study of Its Relationship With Agricultural Growth in India, ARTEP, Bangkok and Giri Institute of Development Studies, Lucknow, 1985.

In the urban areas, among the 'self-employed' or 'independent' workers, a small proportion (around one per cent) consists of professionals like doctors and lawyers, who could be generally ruled out as aspirants for work on wage and salaries. Some of those engaged in household industry or trade may also not be potential entrants to the labour market. But one can assume that most of them would opt for it. According to a survey in Ahmedabad, two-thirds of those working as 'independent workers' or those engaged in a productive activity on a household basis, would like to switch over to the category of a wage earner.<sup>8</sup>

Taking the 'main' workers of 1981 Census we may now attempt an estimate of total stock of wage labour in the Indian economy on the basis of above assumptions. From the 222.5 million workers reported in 1981 Census, if we subtract the employers, non-marginal cultivators, urban professionals working as self-employed and other urban independent and household workers not available for work as wage labour we get the required estimate. Applying the percentage as available in 1971 Census for estimating employees in 1981, we get a figure of around 11 million, around 3.2 million in the urban areas and 7.8 million in the rural areas. Of the 92 million cultivators, 47 per cent or 43.24 million are assumed to be out of the labour market, as they are cultivators with substantial amount of land. The urban self-employed and independent workers would constitute 17.69 million out of the 46.08 million total urban workers. Thirty three per cent of them, that is, 5.89 million are not in the labour market actually or potentially; and around half a million professional working independently are also not likely to join the rank of employees. Thus the actual and potential wage

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<sup>8</sup> Papola T.S., Urban Informal Sector, op.cit. p.96.

labour in the urban areas would be around 36.5 million (46.08 million workers minus 7.8 million employers, minus 43.74 million cultivators minus 1.83 million self-employed in household industry unlikely to opt for wage labour). The aggregate for the economy would thus estimate to 159.67 million workers, or 71.76 per cent of the labour force.

On a very rough basis, the total wage labour engaged in the Indian economy as estimated above could be classified into the various categories as follows:

<u>Total Labour Force</u> (1981 Main workers only)	222.50 million
of which (a) employers	11.00 million
(b) self-employed not available for hired labour	50.00 "
<u>Actual or Potential Wage labour</u>	<u>159.67 million</u>
of which (a) <u>Rural</u>	<u>123.00</u> "
- agricultural labourers	52.75 "
- cultivators potentially in the labour market	47.75 "
- non-farm wage earners	13.30 "
- workers in household industry	3.67 "
- public services and other employees	6.00 "
(b) <u>Urban</u>	<u>36.50 million</u>
- Public services	10.50 "
- Factory workers	10.50 :
- Employees of other non-household establishments	9.00 :
- Household industry workers	2.00 "
- Other self-employed and independent workers	4.50 "

The above broad estimates, then, give us the quantitative magnitude and a broad locational-occupational dimensions of the Indian labour market. The questions that now need to be examined are : Do these segments of the labour force, with their highly different nature and characteristics, in fact, constitute parts of a labour market ? Even if they have a common characteristic, namely, dependence on labour for their livelihood, variations

in other characteristics may lead to a high degree of differentiation and segmentation in the labour market. What is the degree of interaction and integration between the various segments of the labourforce and the labour market ? We now turn to the examination of these and related questions on the basis of available evidence and studies on the nature of the Indian labour market.

#### Segmentation and Integration in the Indian Labour Market

Segmentation based on skill-differences is a common feature of labour markets, which many a time leads to industrywise segmentation as well. Segregation observed by sex,community and race also to a certain extent reflects skill-based segmentation, though there is enough evidence to suggest that these variables have their own impact on the situation. Segmentation and differentiation of various kinds, and mostly of the mixed nature, are common features of the empirical situation of labour markets. What one really needs to look into, from the viewpoint of analysing integration in the labour market, is the interaction among the segments. Interaction could theoretically be visualised in terms of the two tests : one, inter-segment mobility of workers and two, influence of demand and supply situation in one segment on the wages in other segments. An attempt is made here to examine the degree of labour market integration among the regional and sectoral segments, applying these tests.

The vast space of the country and differences in the socio-cultural characteristics among different regions render the emergence of a highly integrated national labour market difficult in India.

that reason that some observers of the Indian labour scene have doubted even the existence of a labour market in the country.<sup>9</sup> If labour market is defined as a mechanism for the allocation and pricing of labour then it would be illogical to suggest such a market does not exist in India.<sup>10</sup>

After all, labour is allocated among various activities and wages are determined in each case. What could be examined is whether labour moves from one segment or region to another in response to actual or potential opportunities for income and employment, and whether simultaneous shortages and surplus exist on a sustained basis in different segments. Implicit in the assertions of non-existence and non-functioning of the labour market, is the oft-repeated but rather suspect presumption of lack of mobility among the Indian workers.

Most analysis of labour market tends to ignore the fact that it operates in space. Space needs to be interpreted not merely as a geographical entity implying physical distance, but also as a socio-cultural entity. The barrier of physical space to human mobility gets compounded once we consider the socio-cultural differences among regions, so that the 'effective distance' among regions is much more than the distance measured in terms of physical space. Therefore, to expect free and perfect mobility among regions, particularly in a country of India's wide geographical expanse and socio-cultural variations, is highly unrealistic. Still we might ask

<sup>9</sup> As an example of this trend of thinking, see Hoselitz, Bert F., in Moore W.E., and A.S. Feldman (Eds) "Labour Commitment and Social Change in Developing Areas", New York, Social Science Research Council, 1960, p.223.

<sup>10</sup> For an elaboration of this point and examination of some other fallacious assertions regarding the Indian labour market, see Papola, T.S., 'The Indian Labour Market', Economic and Political Weekly, July 27, 1968, pp.1179-1182.

the question whether economic activity in any region or area has faced any sustained shortage of labour due to lack of mobility. Even in a purely economic sense, it is not an essential criterion for the existence and functioning a labour market in a given space that all labour is always on the move! What is essential is that there is adequate movement of workers among areas and regions in response to employment and income opportunities.

It well known that internal mobility of labour in India has been high enough to meet the demands for labour in different regions and locations. Cultural differences and geographical distance render mobility from all regions to all regions difficult. Yet in most cases these barriers have been broken. What is important to note is that historically no centre or region which experienced a rising demand for labour, faced sustained shortage of labour; each one of them attracted enough, and sometimes more than enough, migration of workers from other regions.<sup>11</sup> Historical migration into the cities like Bombay, Ahmedabad and Madras to meet the demands of industrial development, and recent migration from Bihar and east Uttar Pradesh to Western Uttar Pradesh, Haryana and Punjab to meet the demand for labour in agriculture are some of the striking examples of this phenomenon. Migration of labour to the centres with very little population but with emerging demand for labour, like Jamshedpur and Bhillai, are illustrations of the fact that the Indian labour has been adequately mobile once opportunities for employment arose even when the area was not necessarily a well developed attractive metropolis or city.

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<sup>11</sup> For an excellent elaboration and documented substantiation of this point in respect of Bombay Cotton Textile Industry and Tata Industries in Jamshedpur see Morris D Morris, The Emergence of an Industrial Labour Force in India : A Study of the Bombay Cotton Mills 1854-1957, Bombay, OUP, 1965 and 'Labour Market in India' in Moore and Feldman (Eds), op.cit.

Inter-state migration as a characteristic of population and workforce is amply evident from the figures of population censuses. Around 31 per cent of India's population was 'migrant', living at a place different from birth place, according to 1971 Census. Most of the migration is, of course, within the boundaries of the states, inter-state migration is only around four per cent of the population. But states like Haryana, Maharashtra and West Bengal all have a significant proportion of in-migrants in their population. All Union Territories have a high proportion of migrants from other States and Union Territories in their population, but in Chandigarh and Delhi this population is as high as 62 and 36 per cent respectively of total population.<sup>12</sup> Further, most large, particularly industrial cities, have a sizeable proportion of migrants in their population, and in-migration has contributed similar, proportion as, if not a higher, than natural growth, to the historical growth of population in these cities. There is no evidence to suggest a lack of interregional mobility of an extent that was warranted by the labour market situation in different parts of the country. On the other hand, all available evidence goes to suggest that labour has always moved regionally and inter-regionally in response to the existing and expected opportunities for employment and income.

The degree of inter-sectoral, rural-urban, interaction, at least in the form of rural to urban migration, is of course, higher than inter-regional, inter-state migration. According to the Census figures, the largest component of migration consists of rural to rural stream, accounting for about 73 per cent of total migrants. But it is well known that almost four-fifths of this stream of migrants consist of women who are recorded as migrants in

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<sup>12</sup> Information reported here is based on Census of India 1971 : Paper No.2 of 1971 Migration in India, pp.41-42.

most cases because they are living in a place other than their birth place on account of marriage. Such migration is not relevant from the viewpoint of analysis of labour market. If one considers migration for economic motivations as relevant for this purpose, then rural to urban migration, which constitutes around 15 per cent of the total migration assumes the greatest significance, followed by urban to urban migration at 9 per cent. And, movement of population from rural to urban areas, is not a recent phenomenon, it has gone on over a long time. Observers of labour scene, strangely have looked at this phenomenon mostly with a tainted view. On the other hand, some have considered it a source of instability and lack of commitment due to the continuing rural link of the migrant as 'a rural worker never leaves his village', although at the same time rural-urban migration is also considered necessary to supply labour to the growing industries in the cities.<sup>13</sup>

On the other hand, there have been observations asserting both the inadequate supply due to limited rural-urban mobility, and excessive rural-urban migration leading to employment and congestion in the cities. Most of these pro-

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positions have been questioned by more recent work and evidence. Industrial labour force has been stable and committed despite a significantly large component of workers with rural origin; most migrant workers have adapted to the urban and industrial way of life and their links with the village are getting increasingly marginalised and limited to social and occasional visits and infrequent remittances.<sup>14</sup> On the other hand, rural-urban migration

<sup>13</sup> For a review of studies dealing with these aspects see T.S. Papola, 'Economics of Labour Market' in V.B. Singh (Ed), Labour Research in India, Bombay, Popular, 1970; and also V.B. Singh and T.S. Papola, "Research in Labour Economics: A Trend Report" in ICSSR Survey of Research in Economics, Vol. V, Bombay, Popular, 1975.

<sup>14</sup> These observations are based on the findings of the following, among others: Morris, op.cit., Lambert, Workers, Factories and Social Change in India, Gokhale Institute and Asia Publishing House, 1963; Myres, C.A., Industrial Relations in India, Bombay, Asia, 1958, Singh V.B., Wage Pattern, Labour Mobility and Savings of Workers in India, Bombay, Allied, 1969.

had always ensured the adequacy of labour supply to industries and there is no evidence of sustained shortages of labour in urban industries due to lack of migration from rural areas. The excessive migration hypothesis is not analytically validated, nor is it established that the problems of urban unemployment and congestion is due primarily to rural-urban migration.

From the viewpoint of the issue of integration and segmentation in the labour market, it is significant to note that the labour supply is not dichotomised on rural-urban basis. True, that the source of labour supply in rural areas consists in villages themselves, as employment opportunities in rural areas are fewer and of more limited varieties than in the urban areas. But the urban areas draw their labour supply in significant proportions both from the rural and urban areas. While the rural to urban migration is thus a natural and economically rational phenomenon, and goes to diffuse whatever segregation existed between the rural and urban markets, there is some evidence to suggest that due to the slow pace of expansion of employment in urban areas, particularly in the organised industrial sector, it has tended to accentuate the imbalance between supply and demand in the urban labour markets.

To conclude, the arguments and evidence presented in this lecture can be summarised in terms of the following propositions:

1. The concept of wage labour and working class commonly used in analysis, policy making and labour organisations in India has been highly limited, and inadequate to reflect either the labour component of the economy or the wage earning class. It is mostly confined to the regular wage and salaried employees of the organised manufacturing and service sectors, and leaves out other employee wage earners and the non-employee wage labour.

2. On the basis of the criteria of ownership of non-labour resources, nature of income and dependence on capital resources of others, about 72 per cent of the labour force can be classified as wage labour. If only workers with the 'employee' status, either on a regular or casual basis in any sector or establishment are included, the coverage would extend only to 46 per cent of the labour force. And if only regular employees of the organised manufacturing and service sectors are considered, as is mostly done in dealing with the labour question by the academics, government and unions, the coverage would be limited to only 12 per cent of the labour force.

3. Workers representing the magnitude of wage labour estimated to be around 72 per cent of the labour force are certainly not a homogeneous group. Differentiations based on skill, industry, sector, region, place of work, and establishment are significant even if a narrower concept of wage labour, is considered. Widening the coverage of the concept to the self-employed potential entrants to the category of wage labour, adds another dimension to the differentiation in the labour market. The available evidence suggests that along with the apparent segmentation there is a reasonably fair degree of integration and inter-segment interaction to suggest the existence of a labour market with widest coverage including all actual and potential wage earners from various regions, and rural as well as urban areas.

4. Interregional and rural-urban mobility of labour has been generally high enough to prevent any sustained shortages of labour in areas with expanding industrial or other economic activity. These movements are motivated by differential economic opportunities. But the varying levels of economic opportunities in different situations makes it highly difficult to bring about similarity in different sectoral, industrial, occupational and regional

segments of the labour market; and these variations combined with different degrees of application of institutional processes of unionism, legislation and organisational formalism, tend to make wage situation in one segment somewhat immune to the labour market situation in other segments. Forces of integration, however, seem more powerful than those of segmentation so far as the space dimension of the labour market is concerned.

5. It seems theoretically and empirically valid to start the analysis of the Indian labour market with the inclusion of all workers without substantial ownership of property as participants in the labour process and, therefore, actual or potential sellers of labour services, irrespective of the class of worker-employee, or self-employed to which they may apparently belong. There is evidence to suggest that they all form part of a single labour market in so far as the interchangeability from one status to another exists, actually or potentially. Further, labour as a class has been sufficiently mobile across sectors and regions to suggest existence of an integrated rather than sectorally and spatially segmented labour market. It does not, however, mean that labour market processes of inter-states, inter-regional and inter-sectoral movements, and the resulting adjustments of demands and supplies and wage determination and wage differentials, have necessarily been efficient and equitable. It is this question of efficiency and equity in the labour market, to which we turn in the next lecture.

## II Efficiency and Equity in the Indian Labour Market

### I Concept of Labour Market Efficiency

Broadly speaking a labour market could be considered efficient if it provides mechanism for matching supplies with demands so as to avoid simultaneous existence of shortages and surpluses; and ensures wage level and wage structure such that clear the market in aggregate as well as in its segments. So far as the matching function is concerned, the basic constraints of time and space would, of course, have to be squarely recognised. In the short run, the quantity and skill composition of the labour force is given; changes in them can take place only in the long run through population movements and training. It is doubtful if population movements respond to the labour market situation, as implied in the classical theory of population and wages; but even if they do, their effect takes a long time, a period of 15-20 years which is required for a newborn baby to enter labour force. Overall balance in the labour market, if at all possible, is, therefore, only a long term tendency hardly realised in any economy, regional, national or global. The given stock of labour, represented by the labour force, could, of course, be trained, and retrained in order to suit the structure of demands in the labour market, but that again is at best, a process involving time longer than what can strictly be termed as short period.

In short run, therefore, it is merely the mobility of labour in response to the demand and supply conditions that provides the mechanism for the efficiency of labour market. On this criterion, the Indian labour market can be regarded to have functioned efficiently in so far as the workers have moved across regions and industries in response to employment and earning opportunities. It needs to be recognised, however, that lateral movement

of labour is easier and quicker than movement between occupations and industries, due to the qualitatively different and specific skill requirements of occupations and industries. And, therefore, the simultaneous existence of shortages and surplus observed in the local labour markets are not so much on account of the lack of mobility in space, but due to difficulties in moving from and to job requiring different skills and training. At the same time, studies on local labour markets also suggest that a process of readjustments of supplies and requirements is continuously on to correct the imbalance. For example, it was observed in a local labour market study in Ahmedabad that when the changes in the structure and technology of industries threw up a very different pattern of demand for labour, which could not be adequately met by the institutional arrangements of employment exchanges and training facilities, the industrial units devised their own ways of dealing with the situation. They resorted increasingly to the in-plant training of general labour to suit their changing requirements.<sup>15</sup>

Thus, labour mobility and internal training efforts by employers have been effective mechanisms for labour market adjustments and correction of short-term imbalances between demands and supplies, and labour markets have tended to have a stable equilibrium in the short run.<sup>16</sup> But if the strict criterion of 'market clearance' is applied, the Indian labour market in aggregate can hardly be considered as tending towards an equilibrium even in the long run.

<sup>15</sup> T.S. Papola and K.K. Subrahmanian : Wage Structure and Labour Mobility in a Local Labour Market : A Study in Ahmedabad, Sardar Patel Institute of Economic and Social Research, Ahmedabad and Popular Prakashan, Bombay, 1975, p.117.

<sup>16</sup> T.S. Papola: 'Mobility and Wage Structure in an Urban Labour Market', in S. Kannappan (Ed), Studies on Urban Labour Market Behaviour in Developing Area, IILS, Geneva, 1977.

One wonders if labour market in any capitalist economy could presently be characterised as such, for an increasing imbalance between supply and demand resulting in rising unemployment levels seem to be a common feature of these markets, even though the genesis and diagnosis of this malady, no doubt, differ among economies with different levels and structures of economic activities.

It would be unfair to pronounce a labour market inefficient because of its failure to clear the market in aggregate. First, aggregate labour supply is an exogenously determined variable and is hardly responsive to signals given by the labour market in the short run; and in a situation with sizeable labour surplus and low productivity, a wage rate to theoretically clear the market may not even find any takers. Second, segmentation in the labour market is a reality and therefore, the efficiency of the market should better be judged on the basis of its performance in demand-supply-wage adjustments within the segments. Here the relevant questions to ask are : Is the demand-supply situation in different segments, occupations, industry and region, reflected in wage differentials among them? Do these differentials in wage induce movements to lead towards correction of imbalances? And does a tendency towards balance between demand and supply in each segment, and, therefore, towards relative equalisation exist?

## II Rationality of Wage Differentials in the Labour Market

Studies on labour markets and wage differentials at the industry, region and local levels have generally revealed that the trends in wage differentials generally reflect the shortage and surplus of labour. Inter-industry differentials in wages were found to be low before the rapid industrialisation

accompanied by diversification of industrial structure began in the late fifties and early sixties in India. In the emerging structure during the 1960's, while the demand for unskilled and semi-skilled workers in traditional industries remained stagnant or grew at a slow pace, that for new and sharply differentiated skills increased fast in the new industries. The traditional industries to which supplies have been historically abundant kept on getting larger supplies, while supplies to the new industries could not keep pace with increasing demands for labour. Inter-industry wage differentials thus widened.<sup>17</sup> Textiles were wage leaders till then and other industries also paid not very much less than the textiles. But soon they were replaced by engineering and chemicals which paid significantly higher than textiles and much higher than most other industries. As a result the coefficient of variation in average wages among the 20 two-digit industries rose from 23.50 in 1950 to 31.88 in 1956, 35.52 in 1960 and 33.33 in 1965.<sup>18</sup> That the inter-industry wage dispersal tends to increase in the initial stages of industrialisation and to diminish gradually after a point, has been postulated as a general hypothesis based on the experience of most industrialised countries.<sup>19</sup> The rationale for this phenomenon lies in the differences in the pace of changes of skill and product market differentiation at the early and the later stages of industrialisation. Thus, the

<sup>17</sup> T.S. Papola, 'Inter-industry Wage Structure:Technology Hypothesis', Anvesak Journal of the Sardar Patel Institute of Economic and Social Research, Ahmedabad, Vol.II, No.1, June 1972.

<sup>18</sup> Ibid and T.S. Papola and V.P. Bhardwaj, 'Dynamics of Industrial Wage Structure:An Inter-country Analysis', The Economic Journal, London, Vol.LXXX, March 1970, p.76.

<sup>19</sup> T.S. Papola and V.P. Bhardwaj, op.cit., pp.72-73.

differential growth of industries produces varying pace of change in the volume of demand for labour among industries and rapid technological changes in the new as compared to the old industries gives rise to changes in its composition. Differentials thus rise, reflecting the changes in the labour market structure.

The evidence that relative wage rates get adjusted in accordance with changing labour market situation is also found in a more direct manner from the studies on local labour markets. In Ahmedabad, for example, the wage differentials among occupations were found to conform the pattern of shortages revealed by factory records and data from Employment Market Information services and of the surpluses revealed by the latter.<sup>20</sup> Wage differentials were of course, high and had an increasing trend around 1970's; such differences were among the non-competing groups, with wages of shortage occupations rising fast and those of surplus occupations stagnant. Inter-industry and inter-plant differentials basically reflected occupational differentials. It sounds logical that an occupation has a wage rate in a labour market determined by its demand and supply situation, irrespective of the employer unit.<sup>21</sup> That is found to be generally the case in the local labour market situation, though the force of this proposition would be weaker if one looks at an aggregative situation of an industrial, national or regional labour market. Yet it seems to hold in so far as one finds that inter-industry differentials are lower than occupational differentials within the industry or the region. Inter-industry differentials which combine differences due

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<sup>20</sup> T.S.Papola and K.K. Subrahmanian, op.cit., p.51.

<sup>21</sup> This tendency leads in the labour markets, when analysed across the firms and industries, to the phenomenon of 'wage contours'. See, Dunlop J.T.(Ed), The Theory of Wage Determination, London, 1957.

to occupational mix with some 'pure' industrial differences, are likely to be higher than differences among industries in the same occupation. In an exercise carried out for the data relating to 20 two-digit industry and 11 important occupations found that in 1960 coefficient of variation in average all-India wage rates among industries was 35.52 per cent, whereas the inter-industry differences in wage rates of an occupation was mostly in the range of 15 to 23 per cent.<sup>22</sup>

### III Tests of Labour Market Efficiency

In the real market situation characterised by limited competition among the differentiated occupational, industrial and regional groups of labour, efficiency in the labour market cannot be adjudged on the basis of market clearance or wage equality criteria which can obtain only in a situation of perfect competition and mobility abstracted from limitations of time and space. Significant wage differentials, therefore, coexist with an efficient and competitive labour market, to the extent such differentials reflect differences in the cost of training and excess demand or excess supply situation in the market. If differentials are limited, to the extent only, they may be called 'equitable' or 'equalising' differentials. Therefore, it is the differentials beyond this extent, such as differences in space, inter-regional and inter-firm, which suggest imperfection and inefficiency in the functioning of a labour market. Here again, it can be argued that space itself could be differentiating factor as it tends to constrain mobility. Yet, certain empirical tests could be devised to adjudge the competitive efficiency of the labour market.<sup>23</sup> Broadly, a fair degree of competitive

<sup>22</sup> Papola, T.S. 'Inter-industry Wage Structure'...op.cit.

<sup>23</sup> T.S. Papola, "Wage Differentials and Competition in the Labour Market", Indian Journal of Labour Economics, Vol.XVII, Nos.1-2, April-July 1974, pp. 39-56.

efficiency can be said to prevail in the national labour market if (i) geographical wage differentials in an industry are significantly lower than inter-industry wage differentials in a region; (ii) the pattern of inter-industry industry wage differentials shows a significant similarity among regions; (iii) relative sectoral wage rates in a region have weaker association with the overall labour supply conditions in the regions than with the situation in industry across the regions; and (iv) differentials in average wage rates of regions are mostly explained by the different industry mix of the regions rather than by the overall economic situation of the regions.

An examination of the above tests suggests a good degree of competitiveness in the labour market across the country. An exercise relating to 35 major industry groups in 15 states in 1964 revealed that the inter-state wage differentials in individual industries ranged between 12 per cent in hydraulic cement and 62 per cent in furniture and fixtures; most industries have an inter-state wage variation between 20 to 40 per cent and all-industry average varied among states by 25 per cent.<sup>24</sup> On the other hand, the inter-industry wage differentials at the aggregative all-India level measured to 33 per cent, inter-industry differentials in individual states ranged between 23 per cent in Uttar Pradesh and 69 per cent in Assam; and most states had a variation between 30 to 50 per cent. No state had an inter-industry variation of less than 10 per cent, while almost one-fourth of the industries had an inter-state variation of that order. Second, most states show a strikingly similar ranking of individual industries by their wage rates; a high wage industry is found to be uniformly so in most states and so is a low wage industry. Coefficients of correlation between most pairs of

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<sup>24</sup>Ibid, pp.44-45.

states in wages ranks of individual industries were found to be positive and highly significant.<sup>25</sup> It is also significant to note that the relative position of different states in respect of average industrial wages are not in consonance with the relative positions in agricultural wage rates in the states nor with regional unemployment ratios. In fact, the coefficient of correlation between ranking order of the states by average industrial wage rates and average agricultural wage rates worked out to be -0.33,<sup>26</sup> and that between former and the order of states by surplus manpower (defined as 15-64 age group population minus workers and students as a percentage of the former) -0.17.<sup>27</sup>

What does this evidence, even though scanty, suggest? It probably suggests that labour market by industry, and further, by individual industries representing specific occupations, is reasonably competitive, and therefore, efficient across the regions, while regional labour markets as a whole are less so across the industries. In other words, where the labour is less differentiated, like within an industry across the regions, mobility ensures efficiency and relatively low differentials in wages, while in the case of different industries even within the same region, labour is differentiated, therefore, mobility is low and wage differentials high. It is this reasoning which leads one to hypothesise that most of observed wage differentials among regions are in fact inter-industry differentials aggregated for regions. And when empirically verified with the help of a decomposition analysis, it is found that differences in industrial structure explained around two-thirds of the inter-state variations in average industrial wage rates;

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25 Papola, T.S. 'Inter-industry Wage Structure, Anvesak, op.cit. p.66.

26 Papola, T.S. 'Wage Differentials and Competition...', op.cit. p.54.

27 Ibid, p.54.

and over time this component has been on an increase.

#### IV Equity in Labour Market Processes

The evidence cited above on various aspects of wage structure in Indian industries goes to suggest that efficiency judged on the competitive criteria prevails in the Indian labour market and its various segments. The next question, therefore, relates to the processes which lead to such a degree of efficiency in the geographically wide and organisationally diverse structure of labour market. In order that a low degree of inequality exists in the wage rates in the same occupations and industry across regions, a degree of mobility in response to relatively higher earnings is essential; and as we have observed earlier, mobility of such an order has been a characteristic of Indian workers. Within a local labour market, it is seen that industries and occupations with high inter-plant differentials have shown a very high degree of turn over and mobility and movements have been consistently in the direction of higher earnings.<sup>29</sup> Where the labour market failed to supply adequate number of candidates for specific jobs requiring special skills, high wage differentials persisted for some time, but were brought down eventually by the employers' device of 'in-plant' training. Thus wage differentials have worked as mechanism for necessary adjustments between labour supplies and demands through quits and entries, labour turnover and labour mobility.

Mobility, quits and entries, no doubt, provide a fairly effective mechanism

<sup>28</sup> Papola T.S. 'Inter-regional Variations in Manufacturing Wages in India: Industrial Structure and Region Effects', Indian Journal of Industrial Relations, Vol.7, No.3, January 1972.

<sup>29</sup> Papola and Subrahmanian, op.cit., pp.105-109.

to bring about matching of demands and supplies among individual plants, industries and regions, their effectiveness of course being the highest in a local occupational labour market, followed by labour market of similar occupations across the regions and the least in dealing with the simultaneous shortages in one and surplus in the other occupational and industrial markets. Functioning of labour market on these lines, presupposes a network of market information on jobs and earnings. What constitutes such a network in the labour market most of which is relatively unorganised even in the so-called organised sector? There are several channels through which information passes in the labour market. The official Employment Exchanges are expected to be an important source of information and mechanism for bringing jobs and workers together. In some industries, decasualisation schemes functioned which maintained a list of workers having ever worked on a casual basis with any unit in the industry in a region and workers were called up from this list as and when vacancies arose in any of the units. Advertisements and factory notice boards serve as another source of information. A system of recruitment of workers, mostly casual, from amongst the workers assembled at factory gates has been another mode of disseminating and labour marketing in many cases. Labour 'markets' in the literal sense of the term are also found to exist and operate at certain fixed locations like railway stations, bus stations and market centres where those looking for work collect at certain times every day and those requiring labour go to these locations for hiring workers. There, of course, is the 'word of mouth' method of dissemination of labour market information in which workers employed in a plant and industry work as the channel of information and many a time, as agents, for procurement of new labour supplies. Then, we have had a long tradition of jobbers and labour contracts prevalent in most industries with all its concomitant advantages for the employer and disadvantages for the workers.

Most pre-Independence studies found, with some degree of lament, that it is the informal channels of information and personalised methods of recruitment which constitute the dominant form of labour marketing. They consisted of jobber and contractor system, use of existing workers who mostly passed on information to their friends and relatives; and picking up out of those available at the factory gates. While labour legislation in the post-Independence period has curtailed to some extent the system of contract labour at least in the perennial industries, the other informal methods of procuring information continue to dominate. Formal and open channel of information like Employment Exchanges and advertisements are found to still constitute a source of informal in less than one-third of the cases even in the organised factory sector; and 'friends and relatives' working in factories provide the job information to aspirant workers in over 70 per cent cases. And similar is the pattern of recruitment : about two-thirds of the workers in the factories are still recruited on the basis of the "introduction by other worker"; and these "other workers" are related to the aspirants by blood, kinship and community in over four-fifth of the cases.<sup>30</sup>

This pattern of information and marketing in the labour market has by and large been found 'efficient' by the employers as it ensures an adequate supply of 'over-committed' and 'obliged' labour in the overall labour surplus situation with practically zero cost of procurement. The inequitous

<sup>30</sup> Evidence on these aspects has come up in a number of studies, notably in: Lambert, R.D., Workers, Factories and Social Change in India, Gokhale Institute of Politics, Poona, 1963; V.B. Singh, Wage Pattern, Mobility and Savings of Workers in India, Bombay, 1970; Papola and Subrahmanian, op.cit; Mark Holstrom, South Indian Factory Workers, New Delhi 1976 and Industry and Inequality, Cambridge 1984 and L K Deshpande "Segmentation of Labour Market", Gokhale Institute of Politics, Pune, 1985.

nature of this process is, however, evident. The informal methods of information dissemination and recruitment is characterised by the features of 'close shop' system. The 'close shop' here is, of course, not a result of union policy but of the employers' heavy dependence on their own employees for procuring new supplies of labour. The latter naturally prefer their own kith and kin, thus making the entry of anybody else difficult. You can get in only if one of your own men is inside. Others have no access either to information or to the job. The system thus tends to be inequitable and renders the biases and preferences narrower than would have been in the case of even close shop unionism.

The otherwise 'efficient' labour market tends to be inequitable in matters of wage levels and wage structures. The notion of efficiency in the labour market is based on the criterion of competition and as observed earlier, wage situation generally suggests operation of competitive forces in so far as the wage relativities reflect the existing relative labour market situation of labour groups and mobility patterns conform to the pattern of wage differentials. In the first instance, unrestricted play of the competitive forces demand and supply lead to a miserably low wage levels and prevent any significant rise in wages, even in the event of productivity gains, in a labour surplus economy. Thus despite the state intervention in the labour market in the form of minimum wage legislation, wage boards and other awards and union pressures, real wages in the Indian industry have on an average risen by just about 25 per cent over the last thirty years, while productivity levels have gone up by at least 250 per cent. Real wages in the unorganised sector where state intervention is confined to a poorly implemented minimum wage legislation in a few segments, and trade unionism is virtually non-existent, real wage have remained stagnant or have even declined.

The competitive efficiency in labour market produces wage relativities which help the employers in attracting a pattern of labour supply in accordance with their requirements, and labour mobility to ensure minimisation of wage cost. In the short run, it provides advantage, as we have seen earlier, to the skills in short supply which presumably take some time and resources to acquire. Even here, it is seen that the employers devise their own ways, like in-plant training, if they find the shortages and consequent high wages sustained over a period of time. But if relatively high wages continue in such occupations, while wages in surplus occupations stagnate or decline, the structure grows increasingly inequitous. A relatively poor worker has neither the waiting capacity nor resources for and access to the training to acquire the required skill and is, therefore, unlikely to take advantage to a better endowed person from a high wage job does not diminish even after a large number train themselves for it, due to their capacity to wait and supply their labour only at a reserve price. That is why earnings differentials based on education and training howsoever justifiable on the criteria of efficiency and return on investment, tend to perpetuate the inequities in the labour market and the society, unless a very effective system of state intervention in the form of positive discrimination is followed.

#### V. Inequities of Competitive Efficiency

Perhaps the most inequitous consequence of a labour market characterised with competitive efficiency results from its relative incapacity, to reduce differentials among the non-competing groups which, in fact, tend to increase due to segmentation in the labour markets. That is why we find that while geographical and inter-plant differentials within the same industry has shown a declining trend in Indian industry, those among industries and occupations have tended to increase. To a certain extent increasing application of dearness allowance formula with the system of a lower neutralisa-

tion of consumer price index with higher slabs of wages has prevented widening of occupational differentials which should have otherwise increased faster purely on the basis of labour market trends. Yet high wage enclaves of industries and occupations have merged very conspicuously in the midst of generally low wage rates during the last two decades, due to the ruthless operation of limited competition in the labour market. Increasing earnings differentials between the modern and traditional industries, and between the formal and informal sector are other consequences of operations of the competition which operated effectively within segments of the labour market, but, by its very nature, failed to be effective across segments.

Wage differentials of a high order are nevertheless justified as mechanisms for the adjustments in labour supply. There is evidence to show that they did act as such in the Indian labour market, yet they seem to have failed to fulfil this task to its logical end, namely, reduction in such differentials. Further one could ask: is the mechanism of wage differentials the only and the most efficient and equitable methods of adjustments in labour supply to demand for labour? That it is not equitable has already been argued earlier. The persistent high wage differentials between the initially deficit and surplus occupations suggests that fixation of wage rates by building a minimum component of cost of skill acquisition on the dynamically interpreted subsistence level for all workers, combined with the organised and equitable methods of recruitment, and industry sponsored training has proved to be more equitable as well as more cost effective in the case of many industries and seems to be very relevant for ensuring both efficiency and equity in the labour market.<sup>31</sup>

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<sup>31</sup> This has been illustrated with the experience of textile industry vis a vis that of other industries in Ahmedabad. See, Papola and Subrahmanian, op.cit pp.137-138.

Judging efficiency of a market on the basis of effective operation of competitive forces, no market meets the criterion of absolute efficiency, as competition can only remove frictions not barriers. Indian labour market has been quite effective in removing frictions but the tall barriers some real and some artificial, have daunted the forces of competitive efficiency from cutting across industrial and occupational segments. Judging by equity criterion, the Indian labour market does not score high. Part of this disharmony arises due to the very concept of efficiency which puts premium on competition and evaluates the functioning of the market from the view point of employers' goal of ensuring adequate supply of labour at lowest wage while equity views the operation of the market from the angle of the absolute and relative earning of the workers and requires in an essentially inequitable society, thwarting the forces of competition. But to a certain extent the inequity of the Indian labour market is the result of high degree of segmentation in the labour market, each segment operating more or less autonomously on a internally competitive basis, yet with little interaction with the influence on the other segments. Segmentation is found not so much on a regional or area basis as on sectoral and industrial basis, within regions and areas. Formal-informal sector segmentation of urban labour markets is one of the most conspicuous manifestations of this phenomenon to which we will turn our attention in the next lecture.

### III Urban Labour Markets :Formal-Informal Segmentation

#### I. Theoretical and Policy Significance of Informal Sector Concept

Differentiation based on the modes of work organisation and production relations have always been recognised as a characteristic feature of the urban labour markets in India. Yet most analysis has been confined till recently to the work and workers in the organised sector where production is carried out in relatively large formalised organisations and production relations are typically capitalistic. Employment in the unorganised sector on the basis of self-employment or wage labour in the non-formalised small units of production has not only been a large part of urban areas, but has also been found to have experienced an increase in its relative size in recent years.<sup>32</sup> Hence some attention has been paid in social science research to the size and structure of economic activity and labour processes in this sector in recent years. A special look at the labour market in this sector is of interest and significance for various reasons. It is contended that this sector provides the condition of free entry and relatively homogenous, mostly unskilled, labour and, therefore, is a good testing ground for the prowess of the economic theory of labour market mechanism. But it is too simplistic to assume that the labour market of the unorganised sector on the basis of mode of their work: wage earners on a regular or casual basis in small non-formalised establishments, and

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<sup>32</sup> For a review of the concept and literature on the subject, see Jan Breman, op.cit and Papola T.S. 'Informal Sector : Concept and Policy', Economic and political weekly, May 3, 1980, and Urban Informal Sector in Developing Economy, New Delhi, Vikas Publishing House, 1981.

the self-employed<sup>33</sup>. To this one can even add the casual and contract workers working for the organised sector whose employment is of an informal nature even though they work for the formal sector. The basic feature that distinguishes the workers in the unorganised sector from those in the organised sector is the formal nature of the contract ensuring protection in matters of conditions of work and wages under some legislative enactments, and also prevalence of unionism in the latter and their absence in the former.<sup>34</sup> While characteristics such as size of units, technology, product market, access to public utilities and assistance etc., which are made the basis of division of economic activity and organisation between the formal and informal sector, do not always provide a sharp distinction between the two sectors; the criterion of application of protective labour legislation and unionism is a discrete variable. As a result it is easier to distinguish between the formal and informal sector labour markets than between formal and informal economic activity. In most analyses, however, the two are taken to be coterminous as the informal labour market is constituted by the workers working in the non-formal organisations such as non-factory establishments and households.

Taking, on this basis, all workers in establishments employing less than 10 persons and all self-employed, as working in the informal sector the proportion of this sector in urban employment in the country as a whole estimated in 1971 to be 60-65 per cent on the basis of Cenus Economic

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<sup>33</sup> See Guy Standing, 'A Trichotomous Model of Urban Labour Markets', in Kannappan, Subbiah, Studies in Labour Market Behaviour in Developing Areas Geneva, IILS, 1977.

<sup>34</sup> Joshi, Vijay and Joshi, Heather, Surplus Labour and the City : A Study of Bombay, Delhi, Oxford University Press, 1976.

Tables and 46 per cent on the basis of figures from National Sample Survey (1972-73).<sup>35</sup> The proportion was estimated to be 61 per cent in Mining and Quarrying, 42 per cent in Manufacturing, 96 per cent in Construction, 78 per cent in Trade and Commerce, 27 per cent in Transport, Storage and Communication, 39 per cent in Services, according to the data from the Census Economic Tables. Estimates for some large metropolitan cities made in different studies are : Bombay 45 per cent<sup>36</sup>, Ahmedabad 47 per cent,<sup>37</sup> Calcutta 46 per cent,<sup>38</sup> Madras 43 per cent<sup>39</sup> and Bangalore 40 per cent.<sup>40</sup>

Employment in the unorganised and informal sector has always been an important part of the urban economic structure in India. Then why has the special concern for study and policy on this aspect developed in the past few years? There are primarily two reasons for this. First, the persistence of a large informal sector and the trends towards its increasing proportion in the urban economies is in contradiction with the expectations of increasing formalisation and enhancement in the scale of production units implied in the strategy of rapid and large scale industrialisa-

<sup>35</sup> Nadelia Chandra Mohan, 'Aspects of Dualism in India's Urban Labour Market', Ph.D. Thesis, Centre for Development Studies, Trivandrum for Jawahar Lal Nehru University, 1984.

<sup>36</sup> Joshi and Joshi, op.cit.

<sup>37</sup> Papola, Urban Informal Sector in Developing Economy, op.cit.

<sup>38</sup> Harold Lubell, Urban Development and Employment : The Prospects for Calcutta, Geneva, ILO, 1974.

<sup>39</sup> Estimates by Operations Research Group, Baroda.

<sup>40</sup> Abdul Aziz, Urban Poor and Urban Informal Sector, New Delhi, Ashish, 1984.

tion. It, therefore, assumes significance that the nature and structure of employment and production in this sector is studied and its implications for a strategy for general, and particularly, urban economic development are worked out. Second, the issue of poverty and inequality have assumed special significance in the recent past due to the realisation that economic growth in the country has not led to significant reduction in poverty and has, in fact, led to an increase in inequality and, therefore, the disadvantaged groups need to be specially looked after and workers of the urban informal sector constitute one such disadvantaged group.

From the latter proposition, a plea is often made for a policy to favour informal sector in matters of government policy of providing public utility services, financial help and other assistance. This plea has been put forward in numerous studies and documents by, among others, international organisations like the World Bank and ILO. There is, however, a flaw in this argument in so far as a distinction is not made between informal sector establishments and informal sector workers. The two may mean the same thing in so far as the self-employed segment of the informal sector is concerned. But the employees of the informal sector establishments may not necessarily gain from such a policy and they are the real disadvantaged, nor the informal sector establishments who enjoy an important advantage even over the formal sector establishments, namely, availability of labour at very low wages without any pressure to raise them upwards either from the government or trade unions. In fact, some of the informal sector establishments survive and many of them thrive on the basis of a high degree of unchecked and glibly tolerated exploitation of labour.

## II Wage Differentials Between the Formal and Informal Sector

It is not always low productivity of the production units in the informal

sector which accounts for the low wages of workers in this sector. It is primarily the lack of protection and pressure from legislation or unions that is responsible for lower wages than in the organised sector. In a study in the informal sector in Ahmedabad city, it was found that the informal manufacturing sector had a value added per worker of Rs.30,000, the same as in the formal sector, but wages per month in this division of activity were Rs.322 in the informal sector and around Rs.500 in the formal sector in 1977.<sup>41</sup> It is seen in a Delhi study, that the differences in human capital variables also do not explain the earning differentials between the formal and information sectors.<sup>42</sup> In Delhi earnings of wage earners were found to be Rs.350 for the formal and Rs.218 for the informal sector in 1976. In Bombay the male factory workers earned Rs.471 per month and those in non-factory establishments Rs.270 in 1974.<sup>43</sup> The situation of casual workers is worse due to irregularity of employment and, therefore, a high degree of underemployment : they earned Rs.184 in Bombay (1974) and Rs.190 in Ahmedabad (1977). Self-employed workers were somewhat better off in Ahmedabad earning Rs.385 per month, and in some activities like manufacturing they earned only marginally lower than the organised sector workers. In Delhi, they scored over the formal sector workers, earning Rs.516 per month as compared to Rs.350 of the formal sector workers in 1976.<sup>44</sup>

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<sup>41</sup> Papola, Urban Informal Sector..., op.cit.

<sup>42</sup> Biswajit Banerjee: 'The Role of the Informal Sector in the Migration Process : A Test of Probabilistic Migration Models and Labour Market Segmentation for India', Oxford Economic Papers 35 (1983), pp.399-422.

<sup>43</sup> Deshpande, op.cit., p.15.

<sup>44</sup> Banerjee, op.cit., p.404.

From the view point of labour market analysis the most important issue to examine is why such large differentials exist. It seems that is primarily the supply factor rather than demand represented by productivity that accounts for it. It is the highly competitive character of the labour market on the supply side that depresses wages in the informal sector.<sup>45</sup> Expansion of employment opportunities in the formal sector has not been high enough to absorb a significant part of the new entrants in the urban labour market-natives or migrants. But the excess supply that prevails in the urban labour market due either to natural increase in labour force or immigration from rural areas, does not affect the wage situation in the formal sector as all of it does not constitute an effective supply to it, barriers on entry created by unduly restrictive hiring standards, not always rational and equitable, and the legislative and union protection. The brunt of the excess labour supply is thus borne by the informal sector labour market which keeps the earnings in this sector low. In other words, the labour supply and earnings functions are different for the two sectors, and while the formal sector has a demand function, the informal sector does not, in so far as it is primarily a residual sector. The relatively high wages in the formal sector attract workers to the urban labour market, but after hitting the barrier to entry in this sector they fall back on the informal sector. Thus the supply of labour to the informal sector is not always a function of its own wage level, but to a certain extent, of that in the formal sector. The formal sector has a demand function not necessarily based on productivity but on the presumption of productivity derived from the conditions of qualification, experience and contact. The residual gets absorbed in the informal sector at low wages dictated by the employer establishments. In the self-

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<sup>45</sup> Ibid., p.420.

employment sector there is no legal bar on entry yet in economic terms, earnings are governed by a kind of wage fund doctrine as the given quantum of aggregate earnings are to be shared between the existing workers and new entrants. In practice, however, entry is not really unrestricted as the existing occupants would resent new entries and may adopt illegal and violent means to prevent entry (as in shoeshine business on railway platforms in Bombay or in vegetable vending in residential localities) or the new aspirants may not be endowed even with the limited amount of capital to start the business.

Thus the earnings functions are different for the formal and informal labour markets. Yet this difference is not necessarily a result of segmentation based on human capital variables. In a study in Delhi<sup>46</sup> it was found that the formal and informal wage sectors differ mainly with respect to the effect on earnings of caste, employment status and nature of work and not necessarily of education and training. It is found that education upto the middle levels makes little difference in earnings, as the wages of illiterates, those with schooling but no primary certificate, or with primary but no secondary certificate, do not differ significantly, in either the formal or the informal sector. Education beyond the middle level and particularly matriculation makes a significant differential impact over those with less or no education and the additive power of education at this level to the earnings is found to be much higher in the formal than in the informal sector. The composition of workers by their educational levels did not significantly differ between the formal and informal sector in terms of those with or without middle level or higher education, though the informal sector, particularly its casual segment has a higher proportion of illiterates. In Ahmedabad, those with middle level and high school education constituted 28 and

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<sup>46</sup> Ibid, pp.408-409.

23 per cent respectively among the factory workers and 23 and 32 per cent among the workers in the informal sector establishments.<sup>47</sup> In Bombay, the non-factory manufacturing establishments had 22 per cent workers with middle level education, 28 per cent with higher secondary and 9 per cent with higher education, the corresponding percentages among the factory workers were 19, 25 and 4.<sup>48</sup> The Bombay study also concluded that the workers' earnings depend more upon their sector of work, casual or regular status, status of employer organisation, factory or non-factory, than on any of their personal attributes, and in terms of all these characteristics the informal sector workers are unfavourably situated.

### III Causes of Informal Sector Growth : An Examination of Behavioural Models of Rural-Urban Migration

Why do the ranks of informal sector go on swelling then despite low earnings? Given the slow rate of expansion of employment in the formal sector, the urban born workers with little waiting capacity would obviously opt for the informal sector. But why do the rural workers migrate in large numbers and work in the informal sector with such earning disadvantage? To the extent the earnings in the urban informal sector are higher than in the rural areas of the migrants' origin, rural-urban migration does not demand any special explanation. But, it is argued, particularly in the probabilistic models of rural-urban migration, spearheaded by Michael Todaro, that such advantage of earnings in the urban informal sector over the rural areas is not a necessary condition of migration; the rural workers migrate not to work in the informal sector, but with the aim of getting a high paid job in the formal

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<sup>47</sup> Papola and Subrahmanian, op.cit and Papola, Urban Informal Sector, op.cit.

<sup>48</sup> Deshpande, op.cit.

sector. But due to unemployment in the urban area, the probability of getting a job in the formal sector immediately on entering the urban labour market is less than one; and while waiting for such a job, a migrant worker in the informal sector is more or less indifferent to the earnings he secures during the "waiting period", as even if he earns lower than his rural income during this period, he would be more than compensated by much higher lifetime earnings once he secures a formal sector job, as compared to his expected earnings in the rural areas.<sup>49</sup>

According to this line of reasoning, informal sector in urban areas not only expands due to rural-urban migration induced by high wages in the formal sector, but also facilitates migration insofar as it provides some positive income during the period a migrant worker is waiting for the intended job. The model thus tries to emphasise the inter-dependence of migration and informal sector as a framework of understanding the so-called 'dilemma of rural urban migration' in the developing countries. The dilemma can be spelt out as follows: In a developing country like India the surplus labour situation mostly takes the form of open unemployment in the urban and underemployment and disguised unemployment in the rural areas. In other words, a worker has positive, even though low, earning as underemployed or disguisedly unemployed in the rural areas, whereas on his migration to the urban areas he is likely to be faced with a zero earning situation, given a high degree of open unemployment in urban areas. Then, why do workers migrate from rural to urban areas?

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<sup>49</sup> See Michael P. Todaro, 'A Model of Labour Migration and Urban Unemployment in Less Developed Countries', The American Economic Review, Vol. 59, No. 1, March 1969, pp. 138-48; and International Migration in Developing Countries: A Review of Theory, Methodology and Research Priorities, ILO, Geneva, 1976.

The probabilistic models pose the difference between the rural incomes and earnings in the urban formal sector accumulated over the life time of a worker even after allowing for an initial period of unemployment or employment with low earnings in urban areas, as the explanation of rural-urban migration. The models are not merely neat and internally consistent but also seem to be based on plausible assumptions. Empirical examination of some of these assumptions, however, present a different picture.

First, it is the 'pull' of high urban formal sector earnings which receives the major emphasis in these models as a factor in migration. While there is no denying the existence of such 'pull', in practice, a large number of migrants are in fact 'pushed' out of the villages due to very low or no earnings. In most of the surveys among the migrants in urban areas, between one-half to two-thirds of the migrants stated inadequate levels of employment and earnings as the main reason for their migration. The percentage of such migrants was, for example, around 60 in Ahmedabad, 70 in Bombay and 50 in Delhi. Thus migration is not in most of the cases a well-calculated option or choice as is implicit in the expected life time earnings differentials hypothesis. Then, there are cases of migration due to desperation and destitution resulting from natural calamities and other reasons. And a number of migrants do not take a decision to migrate permanently as it is assumed in the probabilistic models, at the time of migration itself.

Second, it is not necessarily true that the rural workers migrate to urban areas basically with the aim of securing a job in the formal sector, and look at the work in the informal sector as a staging post. Earnings in the informal sector in urban areas are found to be relatively high enough to attract rural migrants. It is observed that three-fourths of the migrant workers of

informal sector in Ahmedabad gained an earning advantage of at least 100 per cent in the first job in the informal sector, over their rural earnings or income, and the rest also gained mostly between 50 to 100 per cent.<sup>50</sup> A study in Delhi found that a substantial proportion of informal sector entrants were attracted to the city by opportunities in the informal sector itself.<sup>51</sup> Majority of migrants working in the informal sector did not look for an alternative in the formal sector. Only 15 per cent of the migrant employees of the informal sector were looking for an alternative job. About 54 per cent migrants workers of the informal sector had made it sure before migration that they had a job or work in the informal sector. In Ahmedabad too, the pattern of job aspired by the informal sector workers does not go to suggest strongly in favour of the hypothesis that they usually look for formal sector jobs. Such preference was clearly expressed by only 12 per cent of the informal sector workers, in fact only 24 per cent of the informal sector workers were unhappy with their job; and many of the dissatisfied workers aspired for improving their status and earnings within the informal sector.

Third, the extent of inter-sectoral mobility does not suggest that the migrants' aspirations for moving into the formal sector via informal sector if at all cherished by them, are, in fact, realised, as would be essential for the functioning of the probabilistic models. In the past, around one-fourth of the workers of the formal sector in Ahmedabad were found to have graduated from the informal sector, the proportion in the recent years has gone down to around 10 per cent. Informal sector workers are mostly in that

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<sup>50</sup> Papola, Urban Informal Sector, op.cit.

<sup>51</sup> Banerjee, op.cit.

sector for 15 to 20 years which is rather too long a period for a staging post.<sup>52</sup> Average duration for workers in the Bombay's informal sector is somewhat lower at around 10 years, but is still sufficiently long to question the graduation hypothesis.<sup>53</sup> In Delhi, only 24 per cent of those migrants who entered informal sector as wage employees and six per cent of those starting as non-wage workers had found their way into the formal sector. These figures relate to the migrants who have entered Delhi over a period of thirty years. The proportion of migrants entering informal sector having moved up to the formal sector within a year of migration works out to an average of 10 per cent over the years 1965-1975. An additional year spent in the city is found to increase the probability of an informal sector wage earner moving to the formal sector by 0.03.<sup>54</sup> The predictive ability of this estimate, however, gets further eroded due to the low proportion of the informal sector workers now at all looking for an alternative.

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Fourth, the implication of the probabilistic models that the growth of informal sector can be attributed to a major extent to the rural-urban migration induced by high wages in the formal sector does not seem valid in so far as the distribution of migrants and native workers by their sector of work shows no pattern of selectivity. Migrants found jobs in the formal sector directly as do the natives, no sector is found to be an 'exclusive preserve' of or dominated by either migrants or non-migrants. Migrants constituted around 65 per cent of the factory labour force and 55 per cent among the informal sector workers in Ahmedabad during the early seventies. In Bombay city natives constituted around 22 per cent of the factory workers and 20 per cent

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<sup>52</sup> Papola, Urban Informal Sector, op.cit.

<sup>53</sup> Deshpande, op.cit.

<sup>54</sup> Banerjee, op.cit.

of the employees of the informal sector establishments. Of the job secured during five years (1969-1974) also the natives shared 27 per cent of jobs in the factory sector and 20 per cent of jobs in the informal sector. Of Delhi's migrants two-thirds are working in the formal sector, and 43 per cent entered this sector directly and 24 per cent moved up later after initially working in the informal sector. Thus there does not seem much validity in the assumption that migrants have to undergo an apprenticeship in the informal sector before moving up to the formal sector. Migration simply adds to total population and, to a larger extent, to labour force; and the migrant workers are found well distributed between the two sectors. They do not make any specially disproportionate contribution to the growth of the informal sector.

#### IV Implications for the Transient or Permanent Character of Informal Sector

These findings go to suggest that the hypothesis relating to the transitory character of the informal sector has rather doubtful validity. Its role as staging point or vestibule for entry into the informal sector is found to be limited; its overall magnitude and, sometimes even the proportions, are found to increase over time. It is significant to note that the growth of informal sector has taken place side by side the growth of the formal sector. This trend suggests some kind of an organic relationship between the two sectors. A slow growth of the formal sector in a situation of rapid increase in the local and migrant labour force has, no doubt, resulted in the growth of the informal sector. But a relatively faster growth of the organised sector has also been found accompanied by an expansion of the informal sector. The pattern of its growth in the former situation is characterised by a structure of activities with very little linkages with the formal sector, and low earning levels; while in the latter case the growing informal sector

is getting increasingly linked through technology and market with the formal sector and generating employment with reasonably high levels of productivity and earnings, though still lower than in the formal sector.<sup>55</sup> The latter kind of informal sector growth is observed mainly in urban centres which have experienced a rapid expansion of industrial activity in the organised sector.

The growth of the 'residual' variety of the urban informal sector thus seems to be a natural consequence of slow growth of modern sector in urban areas. Growth of this variety of informal sector is likely to dampen the pace of economic growth and accentuate dualism in economic structure and labour markets in the urban areas. Growth of informal sector induced by expansion of organised industry provides relatively better conditions to those engaged in it and is likely to lead to a greater integration in the urban economic structure.

At the present stage, a sizeable informal sector employing a large number of workers at very low wages and in poor conditions of work, seems to be an inevitable characteristic of urban areas in developing countries, due to a rapid growth of both urban and rural population, combined with a slack in the pace of industrialisation. The long term consequences of the dualistic structure with widening schism between the workers in the two sectors however, need to be clearly recognised. The long term strategy should, therefore, avoid falling in the trap of emphasising sustenance of informal sector and thus encouraging

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<sup>55</sup> Cf T S Papola and R S Mathur, 'Inter-Sectoral Linkages in the Metal Engineering Industry in Kanpur (India), in Susumu Watanabe (Ed), Linkages Between Large and Small Enterprises, MacMillan, New Delhi; for ILO, Geneva, 1983.

dichotomous economic structure with all its inequitous concomitants; but should instead stress on expansion of industrial activities with a view of their ultimate integration with the modern formal sector. In the pattern of capitalist development that most developing countries have opted for, inequities and exploitation are inevitable, but at least growth could be better achieved and extreme inequities in the labour market could be avoided, if the growth of informal sector is induced by industrialisation and organised economic growth rather than resulting from the lack of industrial growth.